

The Market Administrator's

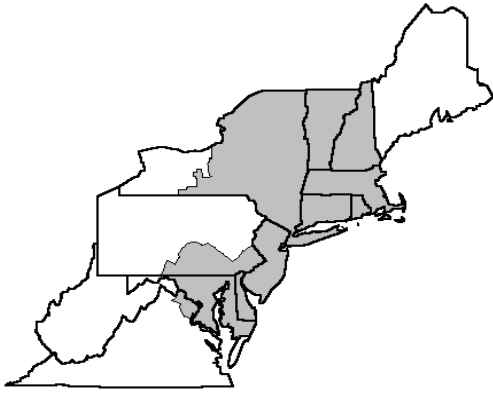
BULLETIN

NORTHEAST MARKETING AREA

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September 2017

Federal Order No. 1



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September Pool Price Calculation

The September 2017 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.89 per hundredweight for milk delivered to plants located in Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. The statistical uniform price is calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. If reported at the average tests of producer pooled milk, the SUP would be \$18.99 per hundredweight. The September statistical uniform price was 44 cents per hundredweight below the August price. The September producer price differential (PPD) at Suffolk County was \$1.53 per hundredweight, a decrease of 23 cents per hundredweight from last month.

Product Prices Effect

All commodity product prices declined from the previous month. Butter dropped nearly 13 cents per pound; nonfat dry milk and dry whey each fell about 2 cents per pound; and cheese was down slightly. These decreases translated into lower prices for all components except protein, which due to the butterfat decrease that is incorporated into the protein price formula, increased over 14 cents per pound. Even though it declined, the September butterfat component price was the second highest ever for the month since the Order's inception.

All class prices decreased: Class I was down 1 cent; Class II fell 76 cents; Class III declined 21 cents; and Class IV dropped 75 cents, all on a per hundredweight basis. With lower class prices, the SUP declined from last month, although it was still 79 cents higher than a year ago.

Highlights

The total volume of producer milk receipts continued to set a new record high for the month of September. Class IV volume also set a new September record high.

All producer component tests (butterfat, protein, and other solids) set new record highs for the month of September. The trend in higher butterfat and protein tests are discussed on page 2 in this *Bulletin*. ❖

Pool Summary

- A total of 11,259 producers were pooled under the Order with an average daily delivery per producer of 6,454 pounds.
- Pooled milk receipts totaled 2.18 billion pounds, a decrease of 1.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 33.9 percent of total milk receipts, up 2.3 percentage points from August.
- The average butterfat test of producer receipts was 3.83 percent.
- The average true protein test of producer receipts was 3.08 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	33.9	739,309,050
Class II	24.0	522,083,427
Class III	26.3	574,051,823
Class IV	15.8	344,402,833
Total Pooled Milk		2,179,847,133

Producer Component Prices

	2017	2016
	\$/lb	
Protein Price	1.6988	2.5675
Butterfat Price	2.8559	2.3082
Other Solids Price	0.2241	0.1096

Class Price Factors

	2017	2016
	\$/cwt	
Class I	19.96	19.81
Class II	16.80	14.66
Class III	16.36	16.39
Class IV	15.86	14.25

Butterfat and Protein: Higher Tests and Pounds

Northeast Order producer butterfat and protein component tests have set new record high levels nearly every month for the past year. The accompanying charts shows pool average producer butterfat and protein tests since the Order's inception in 2000. As the charts depict, tests have been on the rise, especially in recent years.

Butterfat Tests

Producer butterfat tests have set new record highs each month for the past 11 months. When compared to the next highest test, past year levels have averaged 0.05 points higher for the past year. Compared to the lowest levels recorded, which were predominantly in 2004 and 2005, tests for the past year were 0.20 points higher. When compared to 2000 levels, the average was 0.14 points higher. Even though the overall average tests have shown a notable increase, the degree of seasonality has remained about the same.

Protein Tests

Average protein tests have set new record highs during 10 of the past 12 months. Though not as dramatic as butterfat tests, protein tests have averaged 0.01 point higher than the next highest test for the past year. When compared to the lowest levels, which were in predominantly in 2000 and 2002, protein tests for the past year have been 0.13 points higher. Compared to the first year of the Order in 2000, tests for the past year have averaged 0.11 points higher.

Butterfat and protein tests can be affected by a number

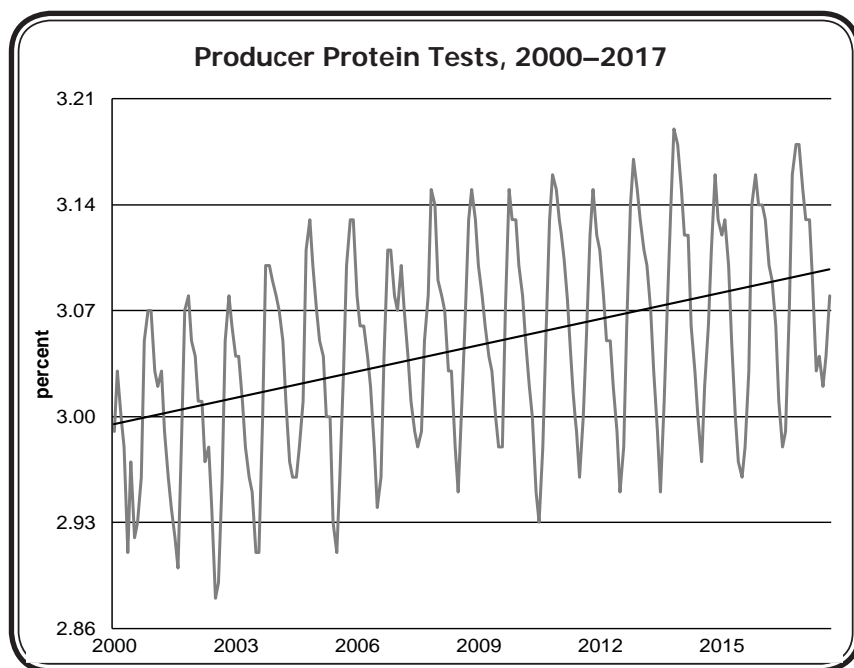
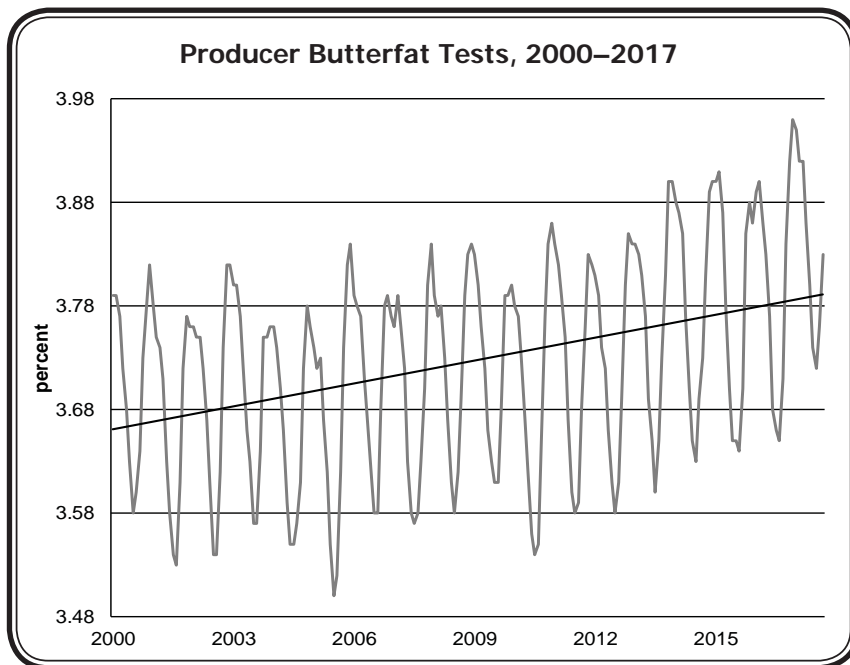
of factors such as changes in management practices, breeding, and feed quality and quantity.

Volume of Butterfat and Protein

Corresponding to the increase in the butterfat and protein average tests, the total volume in pounds of butterfat and protein has increased. This is not only the result of higher tests, but also from the overall total increase in producer pooled milk. The total volume of butterfat in pounds was 3.9 percent higher for the January-September period in 2017 compared to 2016. When compared to 2000, the increase was 18.2 percent. If butterfat tests were unchanged from 2000, but production increased to the 2017 level, the increase in total butterfat pounds would be 3.9 percent. If total pooled pounds were unchanged from 2000, but butterfat tests increased to the 2017 level, the increase in total butterfat pounds would be 13.8 percent, showing that even though tests have risen the overall production increase has contributed more to the increase in pounds of butterfat available.

Protein follows a similar pattern. The total volume of protein pounds for the first nine months of 2017 were 2.8 percent higher than in 2016 and 18.1 percent greater than 2000. Using the same 2017 and 2000 comparisons as mentioned above for butter, gave the same percentage increases in total protein pounds.

For the most part, the market has utilized the increases in both butterfat and protein production, but evidenced by the strong butter prices the past few months, the demand for butter continues to be strong. ❖

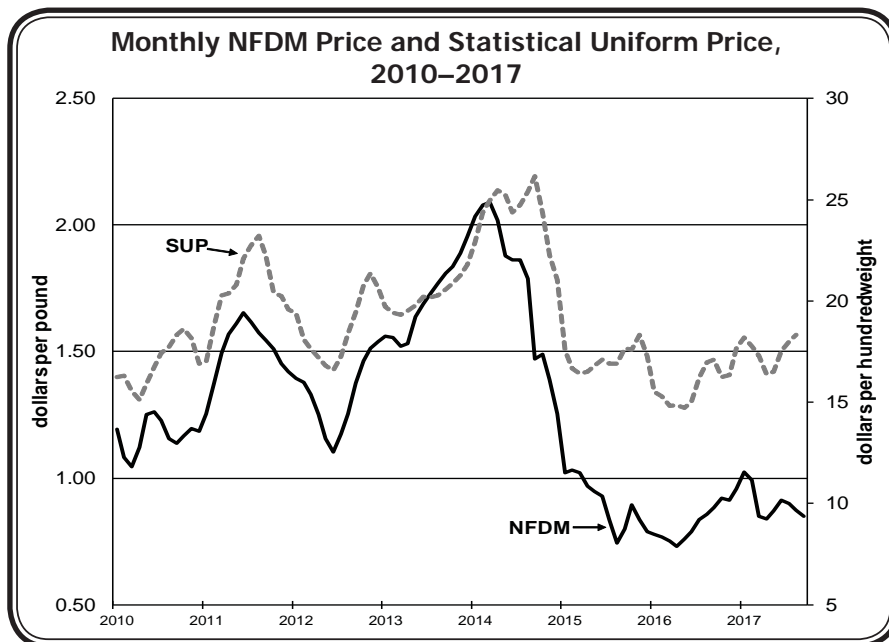


NFDM Weighs Down Milk Prices

Last month's *Bulletin* included a discussion about strong butter prices lending support to the statistical uniform price (SUP). For the first 9 months of the year, cheese prices have averaged about 6 cents higher than the typical 9-month average for cheese since 2000, and about 12 cents below the average for the same period since 2010. In other words, cheese prices have been close to an average level, so while they have not supported higher SUP levels, they also have not been a factor pulling the SUP down. As far as contributing to the milk price, it's nonfat dry milk (NFDM) that has been lagging behind and preventing more substantial milk price recovery.

NFDM Prices Lower than Average

The accompanying chart presents recent monthly NFDM prices that have been used in all Federal Milk Market Order price formulas and the corresponding SUP. NFDM has averaged about \$0.90 per pound through the first 9 months of 2017 and \$0.88 per pound since January 2015. Since 2000, the NFDM price for the first 9 months of a year, as well as for an entire year, averaged \$1.14 per pound. Assuming all other dairy product prices remain as they are, a \$1.14 per pound NFDM price level would result in an SUP of \$19.58 per hundredweight (cwt) for September at the Boston, MA, location, about \$1.70 per cwt higher than actual. More recently, from 2010 through 2014, we grew accustomed to stronger NFDM prices that averaged \$1.50 per pound. Assuming all other September dairy product prices remain as they are, the \$1.50 per pound NFDM price would have resulted in an SUP of \$21.86 per cwt at Boston, MA, almost \$4.00 higher than the current price level.



NFDM Price Outlook

Looking ahead, the question is whether NFDM prices will look more like their higher 2010-2014 levels or remain similar to currently low prices. Looking at the Chicago Mercantile Exchange futures prices for NFDM as of October 16, that market expects NFDM prices to remain below \$0.90 dollars per pound through the next 12 months, averaging \$0.826 per pound during that period.

As the United States dairy industry has become more sensitive to global pricing given the more substantial export volume, the European Union's (EU) large stocks of skim milk powder may play a role in where near term U.S. NFDM prices head. Until EU stocks are released and find a market, expectations are that NFDM prices will remain low. Changes to stocks in the EU and other exporting regions may have an impact on 2018 farm prices. ❖

Pool Summary for all Federal Orders, January–September, 2016–2017

Federal Order Number	Federal Order Name	Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
		2016	2017	Change^ percent	2016	2017	2016	2017
		pounds			dollars per hundredweight			
1	Northeast	20,319,956,946	20,712,691,556	2.3	1.23	1.43	15.61	17.55
5	Appalachian	4,221,498,707	4,308,221,350	2.4	N/A	N/A	16.69	18.88
6	Florida	2,029,351,261	1,938,636,187	(4.1)	N/A	N/A	18.81	20.97
7	Southeast	4,082,093,799	4,151,515,232	2.1	N/A	N/A	17.13	19.17
30	Upper Midwest	26,075,666,897	25,437,658,839	(2.1)	0.12	0.18	14.50	16.30
32	Central	11,735,859,065	12,508,353,280	7.0	0.22	0.35	14.60	16.46
33	Mideast	14,979,476,766	15,560,118,743	4.3	0.38	0.57	14.76	16.69
124	Pacific Northwest	6,132,821,841	5,859,804,369	(4.1)	0.03	0.21	14.41	16.33
126	Southwest	10,261,379,495	10,333,706,017	1.1	1.09	1.15	15.47	17.27
131	Arizona	3,788,409,010	3,869,900,163	2.5	N/A	N/A	14.69	16.54
All Market Total/Average		103,626,513,787	104,680,605,736	1.4	0.51	0.65	15.66	17.62

Price at designated order location.

* Price at 3.5% butterfat.

N/A = Not applicable.

^ Adjusted for leap year in 2016.

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Computation of Producer Price Differential and Statistical Uniform Price*

	<u>Product Pounds</u>	<u>Price per cwt./lb.</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	723,319,898	\$9.58	69,294,046.23	
Butterfat	15,989,152	3.0616	48,952,387.76	
Less: Location Adjustment to Handlers			(2,762,987.50)	\$115,483,446.46
Class II— Butterfat	30,521,339	2.8629	87,379,541.43	
Nonfat Solids	45,067,429	0.7811	35,202,168.76	122,581,710.19
Class III— Butterfat	24,534,999	2.8559	70,069,503.63	
Protein	17,648,909	1.6988	29,981,966.64	
Other Solids	32,875,354	0.2241	7,367,366.79	107,418,837.06
Class IV— Butterfat	12,517,029	2.8559	35,747,383.11	
Nonfat Solids	30,483,817	0.6753	20,585,721.63	56,333,104.74
Total Classified Value				\$401,817,098.45
Add: Overage—All Classes				42,196.68
Inventory Reclassification—All Classes				(147,567.00)
Other Source Receipts	394,397 Pounds			11,093.50
Total Pool Value				\$401,722,821.63
Less: Producer Component Valuations @ Class III Component Prices				(380,649,551.96)
Total PPD Value Before Adjustments				\$21,073,269.67
Add: Location Adjustment to Producers				12,188,394.53
One-half Unobligated Balance—Producer Settlement Fund				1,010,130.87
Less: Producer Settlement Fund—Reserve				(914,099.62)
Total Pool Milk & PPD Value	2,180,241,530 Producer pounds			\$33,357,695.45
Producer Price Differential		\$1.53		
Statistical Uniform Price		\$17.89		

* Price at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.